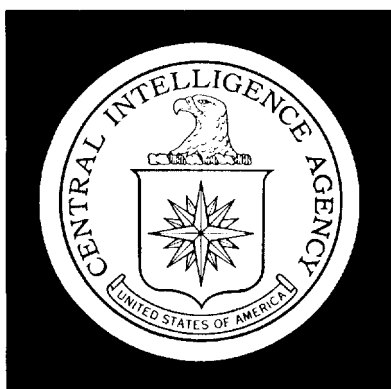
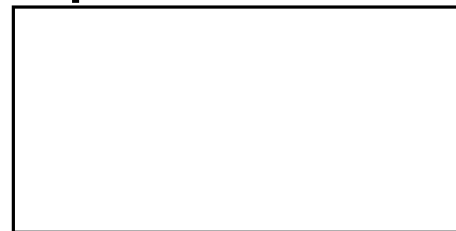


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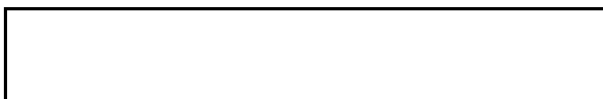


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USSR-Brazil: Discussions on trade, now taking place in Rio de Janeiro, may prove unrewarding.

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Brazil apparently wants to tie use of the trade credit to the new convertible currency system for settling trade balances agreed to in May. At that time Brazil and the USSR agreed to discard their bilateral clearing arrangement and to settle their mutual payment obligations in hard currency.

Officials however, are skeptical that these arrangements will lead to expanded trade. They believe a further decline in Brazilian purchases from the USSR, as well as limited use of the Soviet trade credit will lead to another reduction in purchases by Moscow, especially of coffee. Brazil has resisted several past offers of aid as well as barter agreements, and recently turned down a Soviet offer to exchange \$14 million worth of Brazilian coffee for Soviet hydro-electric equipment.

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Brazil's pessimism may be well founded. It has had a favorable export balance for several years with the USSR, and according to a recent press report, currently has a favorable trade balance of about \$10 million. Under the new payments arrangement, Brazil can no longer be forced to take Soviet goods in settlement. The USSR would be very likely to cut back on Brazilian purchases to avoid settling in scarce hard currency.

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European Communities: One of the Commission's proposals for strengthening monetary cooperation and coordinating economic policies in the Communities appears likely to go into effect soon. It would allow member states in balance of payments difficulties to obtain credits for a period of up to three months from the central banks. The total credit to be made available, three billion dollars, plus the same amount in back-up credits, is far greater than most observers had expected. The movement on this part of the so-called Barre Plan comes in the wake of the French devaluation and German revaluation which emphasized once again the necessity for closer economic coordination in the Communities.

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